



20 January 2009

Our ref: ICAEW Rep 07/09

Jon Grant, Technical Director  
The Auditing Practices Board  
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By email

Dear Jon

**CONSULTATION ON WHETHER UK AND IRISH AUDITING STANDARDS SHOULD BE UPDATED FOR THE NEW INTERNATIONAL AUDITING STANDARDS**

The Institute of Chartered Accountants in England and Wales ('the Institute') welcomes the opportunity to comment on the proposal to adopt clarified ISAs in the UK published by the APB in October 2008.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

We congratulate APB on the standard of its clear and well-argued consultation, supported by a credible and practical regulatory impact assessment.

**We strongly support APB's proposal to update UK auditing standards to reflect improvements to international standards. This will help maintain the high quality of audit in the UK and the UK's leading position in international standard-setting. The proposal to adopt a full suite of clarified ISAs, for all UK audits, for the audit of periods beginning on or after 15 December 2009 (i.e. for 2010 audits) is the only feasible course of action and we urge APB to follow it.** Certainty for practitioners is essential in the light of current economic conditions. Implementation for 2010 audits and the moratorium by IAASB on the implementation of further new standards for two years give all concerned the right amount of time for proper planning. UK input to the IAASB's clarification process should help ensure that the number of 'pluses' is minimised and we welcome early dialogue on this.

Our support for APB's proposal is, however, conditional on the right support being provided on a timely basis by APB and others to help smaller firms implement clarified ISAs. **Merely recognising the proportionately greater resources that smaller firms will need to deploy in implementing clarified ISAs, particularly**

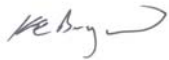
the documentation requirements, is not enough; we urge APB and those responsible for regulating smaller firms to take an active part in helping smaller firms improve audit effectiveness and quality in implementing clarified ISAs. Failure to do so risks auditing standards being treated as a compliance cost to be minimised rather than a means of improving audit efficiency and quality, and creating resistance to effective regulation at this particularly difficult time. Cost - effective implementation of clarified ISAs in the UK requires the timely release of the full suite of standards to be adopted in the UK; and

- the delivery of the message being developed by regulators on a robust and measured approach to implementing clarified ISAs for the first time, proportionate to the size and complexity of the entities being audited and focusing on the objectives of standards rather than box-ticking where this is not merited. This will provide confidence to practitioners;
- continuing close liaison between the profession and standard-setters with trainers and providers of software and methodologies;
- an update to the well-received Practice Note 26 on audit documentation.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

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## Questions

1. *Do you agree that ISAs (UK and Ireland) should be updated to reflect improvements in the underlying international auditing standards? If not, please explain your reasons.*

**Yes.** This is consistent with our previous support for the objectives of ISAs which are improved audit quality, transparency and international convergence. We have responded to all exposures of clarified ISAs and are pleased to note that a great number of our suggestions have been taken up.

Continuation with standards that are relatively unclear is not tenable. The revisions and clarification have been promoted by regulators as well as practitioners and the Public Interest Oversight Board has actively monitored this project to ensure that the public interest is served.

2. *If you agree that the ISAs (UK & Ireland) should be updated for improvements in the underlying international auditing standards, do you believe that this should be done by adopting the Clarity ISAs:*

(a) *as soon as practicable, or*

(b) *if and when they are endorsed by the EC?*

**As soon as is practicable.** Enhancing audit quality is the right thing to do at this time. The clarity project's genesis predates the current economic crisis but the need for clearer and higher quality auditing standards is now urgent in order to help restore public confidence.

Other developed jurisdictions such as Canada, the Netherlands, South Africa and Australia are likely to be adopting clarified standards in accordance with IAASB's timetable. For the UK to delay and to wait for European adoption would result in:

- the UK losing international influence and the authority that attaches to being at the forefront of international developments in auditing standards;
- the credibility of APB, IAASB and the profession being undermined;
- an unwelcome politicisation of standards and an increased possibility of carve-outs at European level and increased influence of the PCAOB in Europe.

Meetings with practitioners have very clearly indicated a strong preference for this option.

There is, nevertheless, good reason to think that further benefits will accrue to the UK when clarified ISAs are endorsed by the EC but the timing of this is currently very uncertain and the certainty of application in accordance with IAASB's timetable takes precedence.

3. *If you believe the Clarity ISAs should be adopted as soon as practicable, do you believe it will be practicable to require the resulting new ISAs (UK & Ireland) to apply to audits of UK and Irish entities with accounting periods commencing on or after 15 December 2009?*

**Yes.** Groups of practitioners who have been closely involved with the ICAEW's work on clarified ISAs are clear that the only practical implementation approach is one that adopts the full suite of ISAs at a given point in time. As noted in our response to APB's proposals for the original introduction of ISAs to the UK in 2004, 'phased', 'twin track' or other piecemeal approaches will be expensive and confusing for both practitioners and the market. Clarity is required in implementation as well as in the standards themselves. Implementation at a later date is a *de facto* delay.

APB's proposal to adopt a full suite of clarified ISAs for all UK audits for the audit of periods beginning on or after 15 December 2009 is the only feasible course of action. Certainty for practitioners and credibility for standard-setters are essential in the current climate. Implementation for 2010 audits and the moratorium by IAASB on the implementation of further new standards for two years give all concerned the right amount of time for proper planning for implementation. Certainty regarding pluses is also necessary and an early dialogue on these is important.

As you know, the ICAEW's ISA Implementation sub-group engaged in an intensive and very successful awareness raising campaign when ISAs were originally introduced to the UK which, together with work performed by the APB, resulted in a smooth transition from UK to International standards. The work involved was significant and involved liaison with practitioners, training, software and methodology providers and publishers, the supervision of the production of a great deal of published material on ISAs, both hard copy and electronic, a web-site and many roadshows. The lessons learned from that campaign are being carried forward to the implementation of clarified ISAs which has in effect already started. No less than six separate meetings with practitioners and training providers were held in October, November and December of 2008, dealing with the possible implementation of clarified ISAs in the UK. We understand that the public sector will be fully supportive of the APB proposals.

Close liaison between the profession and standard-setters with trainers and providers of software and methodologies is needed to ensure that they can give proper consideration to the development of training programs, software and methodologies, to approaches to rewriting their material, to commissioning authors and to getting the material into production. This means that a full set of finalised clarified ISAs (UK and Ireland) must be available before the summer break of 2009 at the very latest because training providers do not have the resources to deal with incomplete or unapproved material. APB will, after all, only be consulting on the pluses. This is a key lesson learned from the original implementation of ISAs in 2005.

A clear message being developed by regulators to the effect that a robust and measured approach to implementing clarified ISAs for the first time, proportionate to the size and complexity of the entities being audited, and focusing on the

objectives of standards rather than mere box-ticking where this is not merited, will give confidence to practitioners and encourage the proper application of professional judgement and efficiencies in changes to audit methodologies.

4. *Do you support APB's view that the same standards should apply to audits of entities of all sizes? If not, please explain your reasons.*

**Yes.** The proper way to deal with excessive regulatory burdens in this context is by means of audit exemption and consideration of review engagements (such as the assurance service promulgated by the ICAEW) and compilation engagements.

To apply different standards to different entities risks compromising perceptions of the value of a smaller entity audit and leading to the audit profession becoming ever more stratified.

We note that many of the so-called 'new' requirements are in fact extant grey letter material which is already embedded in the methodologies of many firms. Nevertheless, while the significance of the number of 'new' requirements should not be underestimated, particularly for smaller firms, the real issue in many cases is the requirement for the *documentation of compliance* with these requirements. Particular consideration must be given to how audit documentation requirements and the newer ISAs having a bearing on smaller audits, such as ISA 265 on control deficiencies, can be dealt with most efficiently by smaller firms. An update to the very well-received PN 26 would be welcomed by practitioners. We would be happy to provide assistance in this area.